

**OWENSBORO INDEPENDENT
SCHOOL DISTRICT**

FINANCIAL STATEMENTS

JUNE 30, 2005

CONTENTS

Independent Auditors' Report	1
Required Supplementary Information:	
Management's Discussion and Analysis	4
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	19
Statement of Activities	21
Fund Financial Statements:	
Balance Sheet — Governmental Funds	23
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	25
Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds	26
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	28
Statement of Net Assets — Proprietary Funds	29
Statement of Revenues, Expenses and Changes in Fund Net Assets — Proprietary Funds	30
Statement of Cash Flows — Proprietary Funds	31
Statement of Fiduciary Net Assets — Fiduciary Funds	33
Notes to Financial Statements	34

Required Supplemental Information:

Budgetary Comparison Schedule for the General Fund60

Budgetary Comparison Schedule for the Special Revenue Fund62

Supplemental Information:

**Combining Statement of Revenues, Expenditures and Changes in
Fund Balances — Nonmajor Governmental Funds.....65**

**Combining Statement of Assets and Liabilities — All School
Activity Funds — Agency Funds66**

**Statement of Assets and Liabilities — School Activity Funds — Owensboro
High School.....67**

Schedule of Expenditures of Federal Awards70

Notes to the Schedule of Expenditures of Federal Awards72

Summary Schedule of Prior Year Audit Findings73

**Independent Auditors' Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With Government Auditing Standards76**

**Independent Auditors' Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance In Accordance
With OMB Circular A-13379**

Schedule of Findings and Questioned Costs.....82



INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Owensboro Independent School District
Owensboro, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the **Owensboro Independent School District** (the "District") as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, and Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the

927 College Street ♦ PO Box 104
Bowling Green, KY 42102-0104
(270) 782-0700 ♦ Fax: (270) 782-0932
1-888-896-5000

167 South Main Street
Russellville, KY 42276
(270) 726-7151 ♦ Fax: (270) 726-3155
1-888-240-7151

Kentucky Statement Committee for School District Audits
Members of the Board of Education
Owensboro Independent School District

District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated November 4, 2005 on our consideration of **Owensboro Independent School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 17 and 60 through 63 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Owensboro Independent School District's** basic financial statements. The combining and individual nonmajor fund financial statements and other additional information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements of the **Owensboro Independent School District**. The combining and individual nonmajor fund financial statements, other additional information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

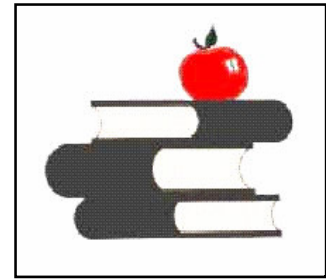
Holland CPAs, PSC

Bowling Green, Kentucky
November 4, 2005

Required Supplementary Information

Management's Discussion and Analysis

**OWENSBORO INDEPENDENT BOARD OF EDUCATION
OWENSBORO, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FISCAL YEAR ENDED JUNE 30, 2005**



As management of the Owensboro Independent Board of Education (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

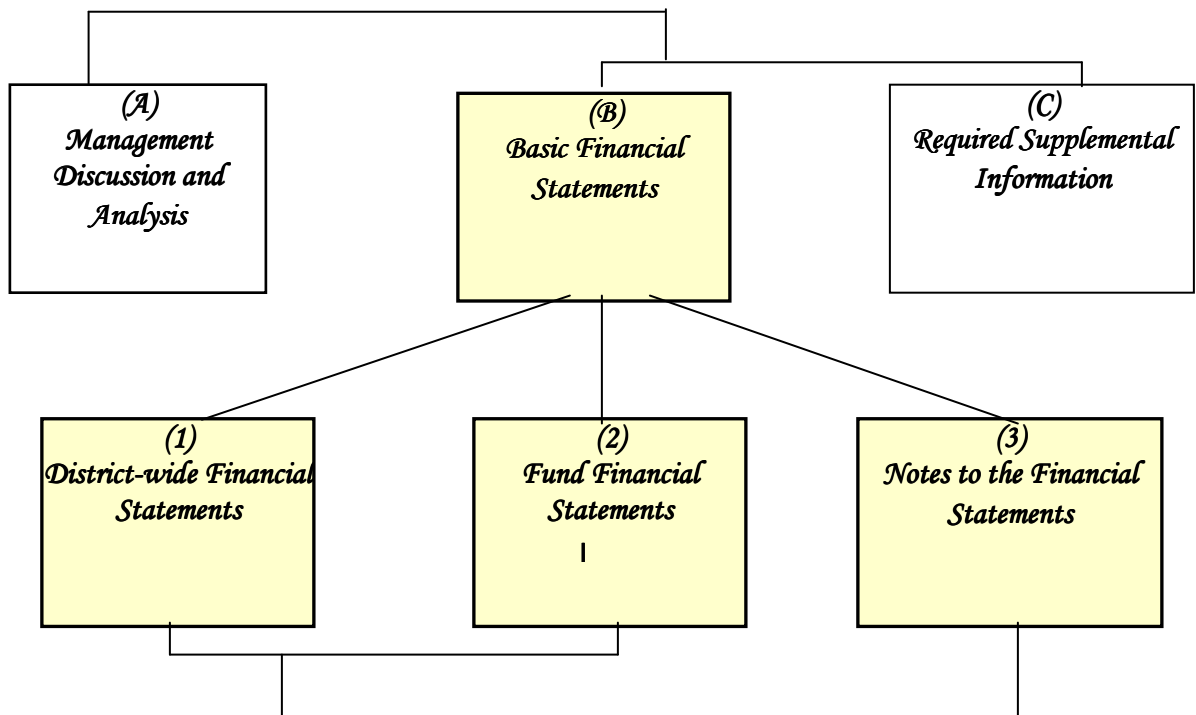
- The beginning General Fund fund balance for the District was \$4,851,084 (re-stated for a prior period negative adjustment of \$128,918 due to cash reconciliation issues. The main issue resulted from timing differences between fiscal years for summer payroll checks issued in the next fiscal year and the general ledger credit to cash in the preceding fiscal year. The outstanding payroll check listing failed to list the corresponding checks to the end-of-year journal entries.) The ending General Fund fund balance was \$4,014,490. The major reasons for the decrease of \$836,594 in the General Fund fund balance was non-re-occurring items consisting of \$210,019 for a lease on property as well as \$1,242,034 transferred to the Construction Fund for a land purchase in the amount of \$575,938 and \$666,096 for new and renovated Athletic Fields.
- The Annual Financial Audit Report includes an increase in state revenue due to a change in reporting requirements mandated by the Kentucky Department of Education's (KDE) implementation of GASB regulations. The state's contribution to our employee's health insurance and retirement is included in the district's revenues and expenditure for the first time. This amount contributed was \$4,632,649 for Kentucky Teachers Retirement System (KTRS), Health Insurance premiums, Life Insurance premiums and administration fees. The expenditure of these monies is recorded within the appropriate funds and functions.

Overview of the Annual Financial Report (AFR)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Owensboro Independent Board of Education as a financial whole, an entire operating entity, in a manner similar to a private-sector business. The annual report consists of three parts: (A) management's discussion and analysis (this section), (B) the basic financial statements and related notes, and (C) required and other supplemental information. The statements then proceed to provide an increasingly detailed look at specific financial activities. The District's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund

financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Organization of the Annual Financial Report



The District-Wide Financial Statements have two sections (1) the *Statement of Net Assets* and (2) the *Statement of Activities*. The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's major funds with all other non-major funds presented in total in one column. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Reporting the District as a Whole

One of the most important questions asked about the District is “How did we do financially during the current fiscal year?” The *Statement of Net Assets* and the *Statements of Activities*, which appear first in the District’s financial statements, report information on the District as a whole and its activities in a way that helps answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account, all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the District’s net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. However, the District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as Kentucky’s funding formula, *Support Educational Excellence in Kentucky* (SEEK) and its adjustments, the District’s property tax base, required educational programs and other factors.

In the Statement of Net Assets and the Statements of Activities, the District is divided into two distinct kinds of activities:

- **Governmental Activities** – Most of the District’s programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extra-curricular activities. The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). Fixed assets and related debt is also supported by taxes and intergovernmental revenues.
- **Business-Type Activities** – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District’s food service is reported as business activities. These activities are funded thru fees, federal grants, and federal commodities.

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$16,611,243 as of June 30, 2005. This was an increase of \$716,688 which excludes the prior period adjustment of \$128,918 over the previous year.

The largest portion of the District’s net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that is still outstanding (\$10,876,885 including the SFCC portion and an decrease of \$210,970 over the previous year). The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Reporting the District's Most Significant Funds

Fund Financial Statements

After looking at the District as a whole, an analysis of the District's major funds follows. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds are assets that belong to others. The school's activity funds are reported as fiduciary funds. The proprietary funds are the school food service and day care funds. A proprietary fund is sometimes referred to as an enterprise fund. It is a fund that operates like a business with sales of goods and services. All other activities of the district are included in the governmental funds. The major governmental funds for the Owensboro Independent Board of Education are the general fund, special revenue (grant) fund, FSPK (Building Fund) and the construction fund.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Assets and the Statements of Activities) and governmental *funds* is reconciled in the financial statements.

Proprietary Funds - Proprietary funds use the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund will essentially match. The District's school food service operations and day care operations are within the proprietary business-type activities.

Fiduciary Funds – Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. The school's activity fund balances (or agency funds) at year-end totaled \$442,922, (an increase of \$10,209 from the previous year).

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

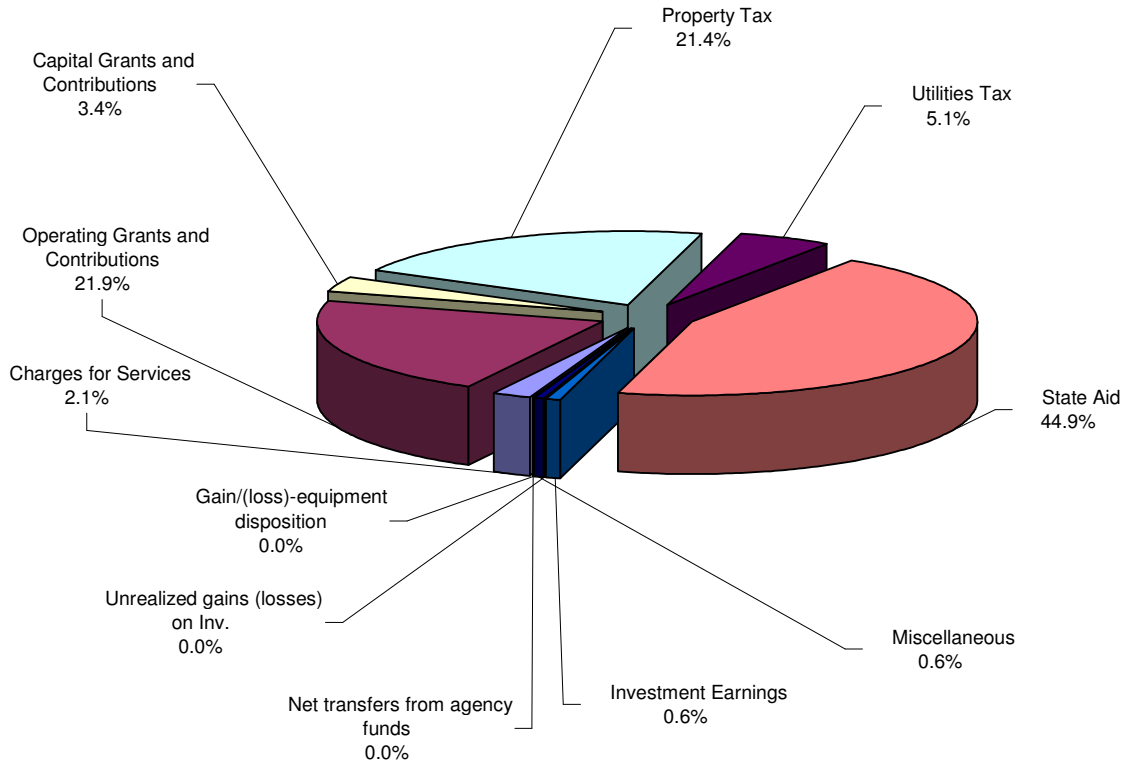
Net Assets for the period ending June 30, 2004 and June 30, 2005

	Governmental Activities		Business-Type Activities		District Total		Total District % Change
	FY2004	FY2005	FY2004	FY2005	FY2004	FY2005	2004 - 2005
Assets							
Current and Other Assets	\$10,614,272	\$ 8,627,407	\$ 937,319	\$ 823,384	\$11,551,591	\$ 9,450,791	-18.2%
Capital Assets	19,411,441	21,129,968	137,979	113,067	19,549,420	21,243,035	8.7%
Total Assets	\$30,025,713	\$29,757,375	\$1,075,298	\$ 936,451	\$31,101,011	\$30,693,826	-1.3%
Liabilities							
Long Term Liabilities	\$11,498,453	\$11,467,807	\$ -	\$ -	\$11,498,453	\$11,467,807	-0.3%
Other Liabilities (current)	3,563,172	2,580,129	15,913	34,647	3,579,085	2,614,776	-26.9%
Total Liabilities	\$15,061,625	\$14,047,936	\$ 15,913	\$ 34,647	\$15,077,538	\$14,082,583	-6.6%
Net Assets							
Investment in capital assets (net of debt)	\$ 9,472,929	\$10,313,271	\$ 137,979	\$ 113,067	\$ 9,610,908	\$10,426,338	8.5%
Restricted	1,498,753	1,385,761	-	-	1,498,753	1,385,761	-7.5%
Unrestricted	3,992,406	4,010,407	921,406	788,737	4,913,812	4,799,144	-2.3%
Total Net Assets	\$14,964,088	\$15,709,439	\$1,059,385	\$ 901,804	\$16,023,473	\$16,611,243	3.7%
	\$30,025,713	\$29,757,375	\$1,075,298	\$ 936,451	\$31,101,011	\$30,693,826	-1.3%

Revenues for the period ending June 30, 2004 and June 30, 2005

	Governmental Activities		Business-Type Activities		District Total		Total District % Change
	FY2004	FY2005	FY2004	FY2005	FY2004	FY2005	2004-2005
Revenues							
Program Revenues:							
Charges for Services	\$141,810	\$171,471	\$863,421	\$668,708	\$1,005,231	\$840,179	-16.4%
Operating Grants and Contributions	6,709,087	6,554,068	1,993,804	2,032,950	8,702,891	8,587,018	-1.3%
Capital Grants and Contributions	1,211,043	1,322,284	0	0	1,211,043	1,322,284	9.2%
General Revenues:							
Property Tax	7,964,067	8,393,249			7,964,067	8,393,249	5.4%
Utilities Tax	1,865,124	2,002,499			1,865,124	2,002,499	7.4%
State Aid	17,251,547	17,642,364			17,251,547	17,642,364	2.3%
Investment Earnings	106,382	239,975	5,501	11,683	111,883	251,658	124.9%
Unrealized gains (losses) on Inv.	-87,147	0	-	-	-87,147	0	
Miscellaneous	63,695	218,295		27,495	63,695	245,790	285.9%
Net transfers from agency funds	168,519	86,091	-168,519	-90,780	0	-4,689	0.0%
Gain/(loss)-equipment disposition	0	0	0	0	0	0	0.0%
Total Revenues	\$35,394,127	\$36,630,296	\$2,694,207	\$2,650,056	\$38,088,334	\$39,280,352	3.1%

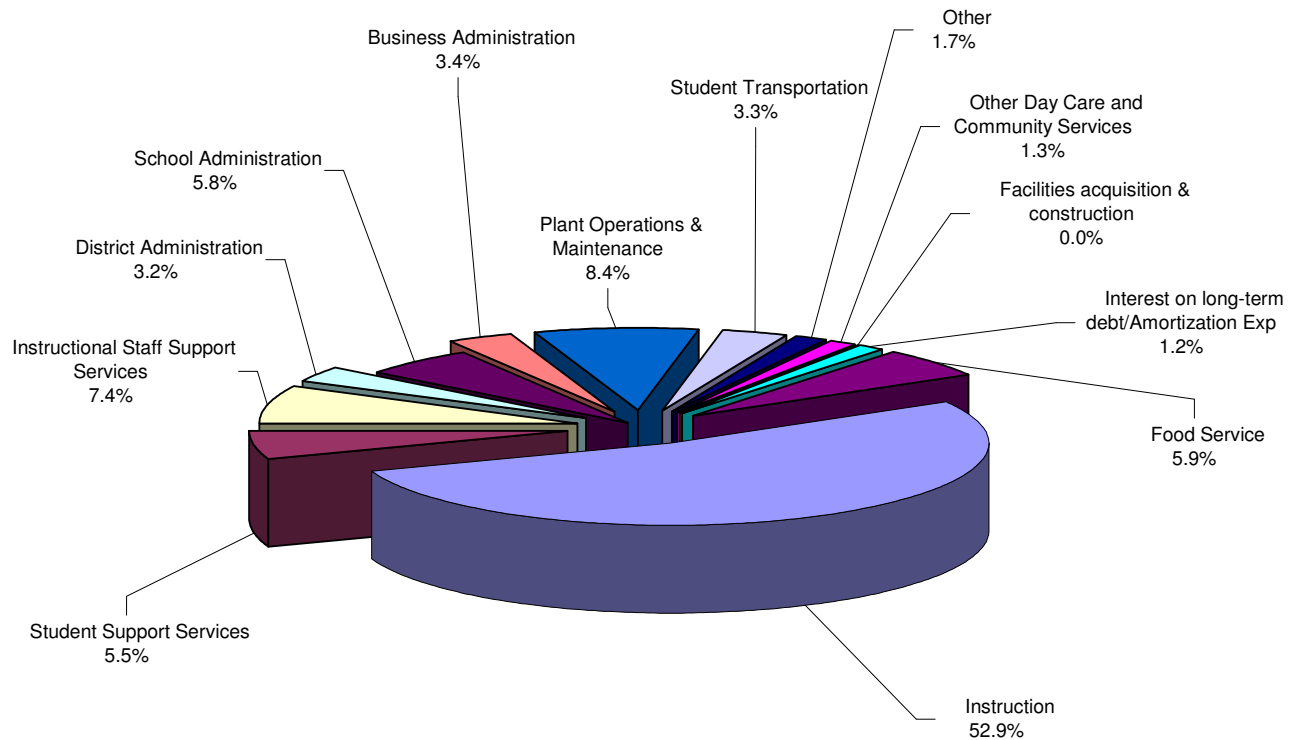
SOURCES OF REVENUES 2005



Expenses for the period ending June 30, 2004 and June 30, 2005

Expenses	Governmental Activities		Business-Type Activities		District Total		Total District % Change
	FY2004	FY2005	FY2004	FY2005	FY2004	FY2005	2004-2005
Instruction	\$19,599,762	\$20,386,741			\$19,599,762	\$20,386,741	4.0%
Student Support Services	2,018,315	2,128,479			2,018,315	2,128,479	5.5%
Instructional Staff Support Services	2,765,906	2,843,720			2,765,906	2,843,720	2.8%
District Administration	945,324	1,239,721			945,324	1,239,721	31.1%
School Administration	2,138,900	2,227,090			2,138,900	2,227,090	4.1%
Business Administration	1,233,542	1,293,102			1,233,542	1,293,102	4.8%
Plant Operations & Maintenance	2,717,726	3,245,907			2,717,726	3,245,907	1.8%
Student Transportation	1,068,333	1,273,232			1,068,333	1,273,232	19.4%
Other	738,621	647,423			738,621	647,423	19.2%
Other Day Care and Community Services	-	-	526,811	516,661	526,811	516,661	-1.9%
Facilities acquisition & construction	161,883	-			161,883	-	-100.0%
Interest on long-term debt/Amortization Exp	354,205	470,612			354,205	470,612	32.9%
Food Service	-	-	2,212,998	2,290,976	2,212,998	2,290,976	3.5%
Total Expenses	\$33,742,517	\$35,756,027	\$2,739,809	\$2,807,637	\$36,482,326	38,563,664	5.7%

Program Expenses 2005

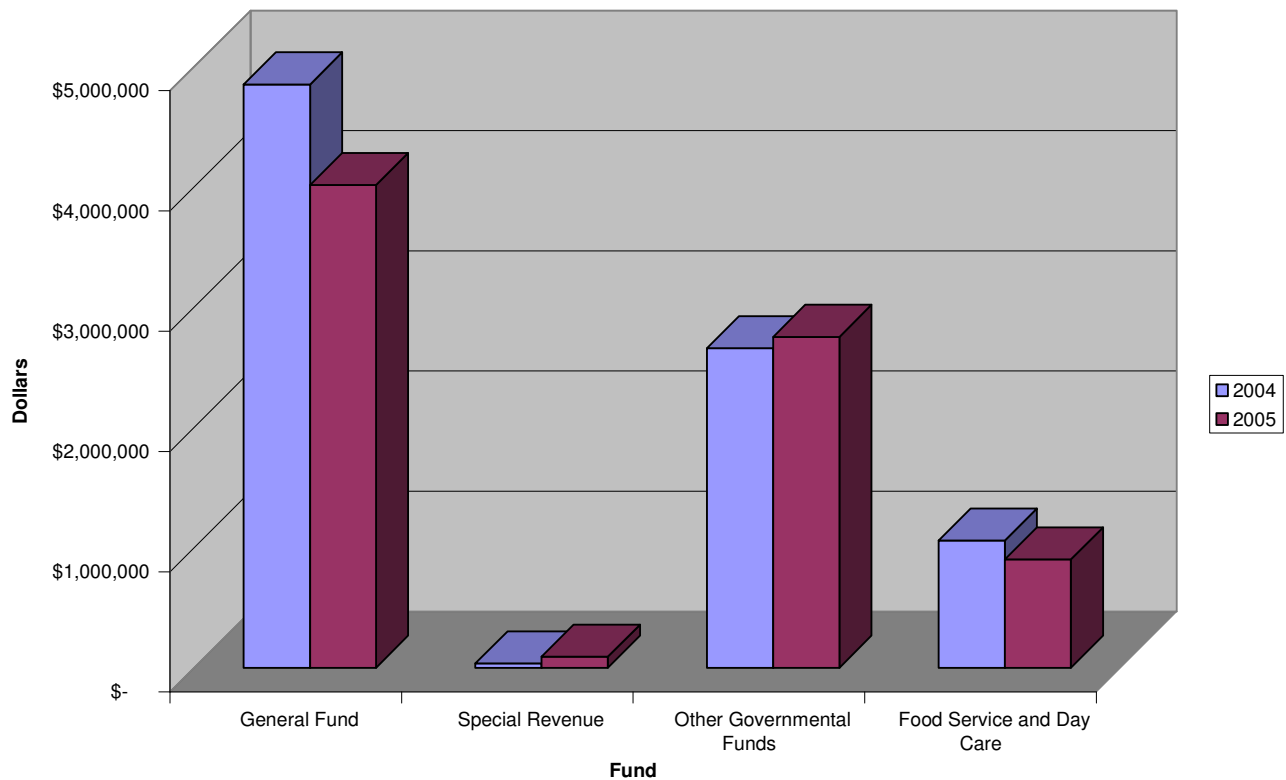


- The District's total revenues were \$39,280,352 and the total expenditures were \$38,563,664. Revenues exceeded expenses by \$716,688.
- State Aid revenues accounted for 44.9% and local taxes accounted 26.5% of the revenue.
- Instruction was the major expense category and accounted for 52.9% of the total.
- Food service expenses exceeded revenues by \$100,477. During FY 2005, \$119,541 indirect costs were transferred to the General Fund from the Food Service Fund.

Financial Analysis of the District Funds

Changes in End-of-Year Fund Balances	FY 2004	FY 2005	Amount of Change	Percent of Change
General Fund	\$ 4,851,084	\$ 4,014,490	\$(836,594)	-17%
Special Revenue	35,627	92,665	57,038	160%
Other Governmental Funds	2,657,617	2,751,049	93,432	4%
Food Service and Day Care	1,059,385	901,804	(157,581)	-15%
Total	\$ 8,603,713	\$ 7,760,008	\$(843,705)	-10%

Changes in End-of-Year Fund Balances



- The General Fund's fund balance showed a negative change of \$836,594. The major reasons for the decrease in the General Fund balance was non-re-occurring items consisting of \$210,019 for a lease on property as well as \$1,242,034 transferred to the Construction Fund for a land purchase in the amount of \$575,938 and \$666,096 for new and renovated Athletic Fields.
- The Special Revenue fund had a positive change of \$57,038 in fund balance primarily as a result of an increase from KETS (Kentucky Education Technology) prior to year-end.
- Within Other Governmental Funds, a major component of the \$93,432 increase was a result of bond proceeds received for a construction project in FY 2004 and a General Fund transfer occurred in FY 2005 for Athletic projects.
- The Food Service Fund's fund balance had a \$100,477 decrease. A small decrease in the number of free and reduced lunch count for students contributed as well as school lunch prices remain the same while a 3 percent pay raise was given to Food Service employees. Also, a new computer software program was purchased for every school and central office location along with new computer hardware.
- The Day Care Fund's fund balance had a \$57,104 decrease. This was mainly due to increased wages for day care employees.

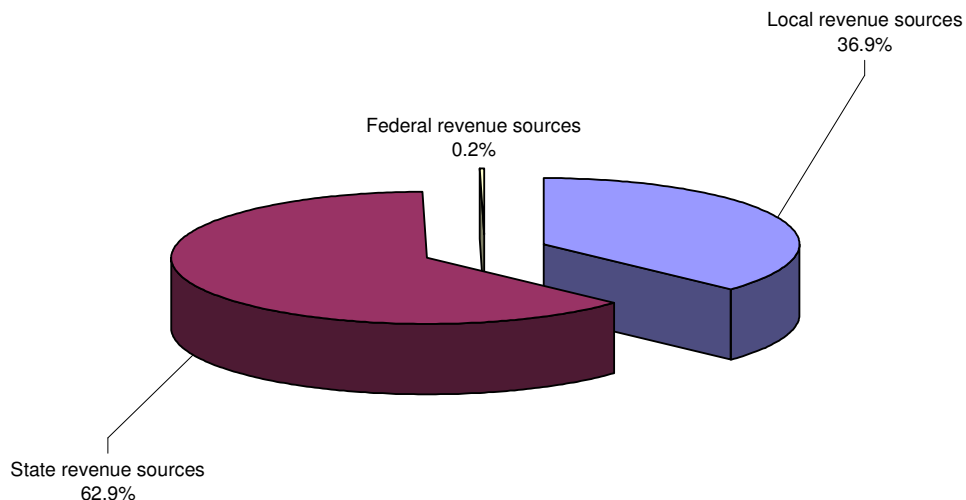
Comments on General Fund Budget Comparisons

- The District's General Fund total revenues for the fiscal year ended June 30, 2005 were \$23,689,843. This is \$1,321,099 more than was budgeted in the final working budget. Due to the unpredictable economy of the state of Kentucky and the possibility of funding cuts, revenues were budgeted conservatively. In addition, there will be a difference due to the GAAP requirement in our audit to include state contributions to our employee's retirement, health and life insurance. This is referred to as "On-Behalf" revenue. The District does not get these funds directly and it is not included in our budget. However, it must be reported in the District's audit. This "On-Behalf" contribution for the General Fund was \$4,361,789 for 2004-2005. The District budgets for local revenues (taxes, earned interest, and tuition) in a conservative manner. Thus, local revenues were higher than budgeted (\$1,176,577).
- Expenditures were also less than budgeted primarily because of the year-to-year changes in substitute salaries and overtime wages are budgeted in the event needed. Technology is budgeted for each year and because of timing, funds may actually not be expended until the next fiscal year.
- General Fund budget compared to actual revenue varied from line item to line item with the ending actual fund balance being \$836,594 less than the prior year. The primary reason for this is the transfer of funds to the Construction Fund for property to be purchased and the new athletic fields.
- General Fund budget shows a \$4,060,391 favorable variance. The reason is because of the state mandate to budget a contingency budget. The contingency is not meant to be expended, but is to be used as the district's beginning balance for next year. The amount budgeted for contingency was \$2,000,000.
- The Final Budget and the Original Budget differ primarily because the Original Budget is prepared by the end of February and adopted in May for the upcoming school year and the State had not adopted their budget yet. Because of state budget concerns, the Original Budget had minimum salary increases budgeted. The District adopted a 3.0% pay raise for Classified staff and 3.0% for Certified staff in the Final Budget after the state adopted its budget. The SEEK adjustment decreased the Budget from FY 2004 in the amount of \$182,502 for fiscal year 2005 as a result of the State reduction in funding Transportation Costs through the SEEK Formula.
- The Special Revenue fund budget compared to the actual will always differ slightly because the state budget report only shows current fiscal year grant awards. The Special Revenue expenditures will include current year grant expenditures and previous year grant expenditures that were not completed at the end of the previous year.

The following tables present a summary of revenues of the General Fund for the fiscal year ended June 30, 2005.

Revenues		Amount
Local revenue sources		\$10,348,648
Property Tax	\$ 6,952,833	
Motor Vehicle Tax	779,496	
Utilities Tax	2,002,499	
Other	69,222	
Tuition and fees	171,471	
Investment earnings	211,101	
Unrealized gains (losses)Inv.	0	
Other local revenue	162,026	
State revenue sources		17,642,364
Federal revenue sources		60,620
Total Revenues		\$28,051,632

General Fund Revenue Sources 2005

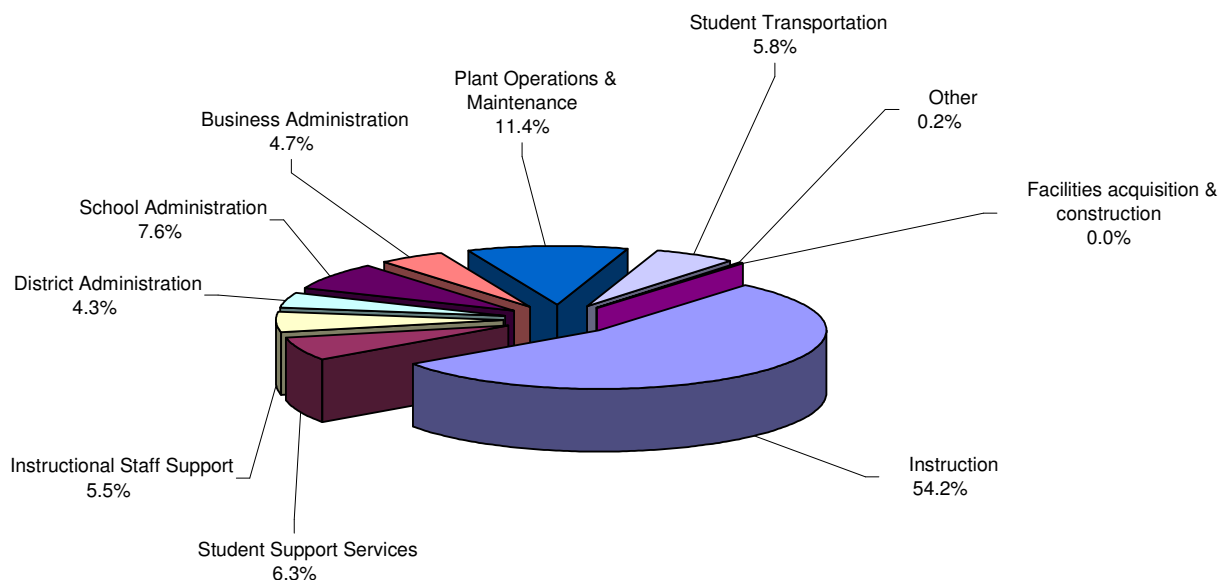


The majority of revenue was derived from state funding 62.9% with local revenue sources making up 36.9% of total general fund revenue. The federal revenue amounted to .2%.

The following tables present a summary of expenditures of the General Fund for the fiscal year ended June 30, 2005.

General Fund Expenditures	Amount
Instruction	\$15,276,060
Student Support Services	1,775,145
Instructional Staff Support	1,548,563
District Administration	1,198,931
School Administration	2,151,898
Business Administration	1,310,919
Plant Operations & Maintenance	3,211,919
Student Transportation	1,645,779
Other	59,247
Facilities acquisition & construction	0
Total Expenditures	\$28,178,461

General Fund Expenditures 2005



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By June 30, 2005, the district had invested \$21,243,035 in capital assets. This included land, school buildings, athletic facilities, maintenance facilities, computer equipment and administrative offices. The cumulative total of assets was \$39,695,120 with accumulated depreciation of \$18,452,085. The district began a major athletic complex during the fiscal year of 2005.

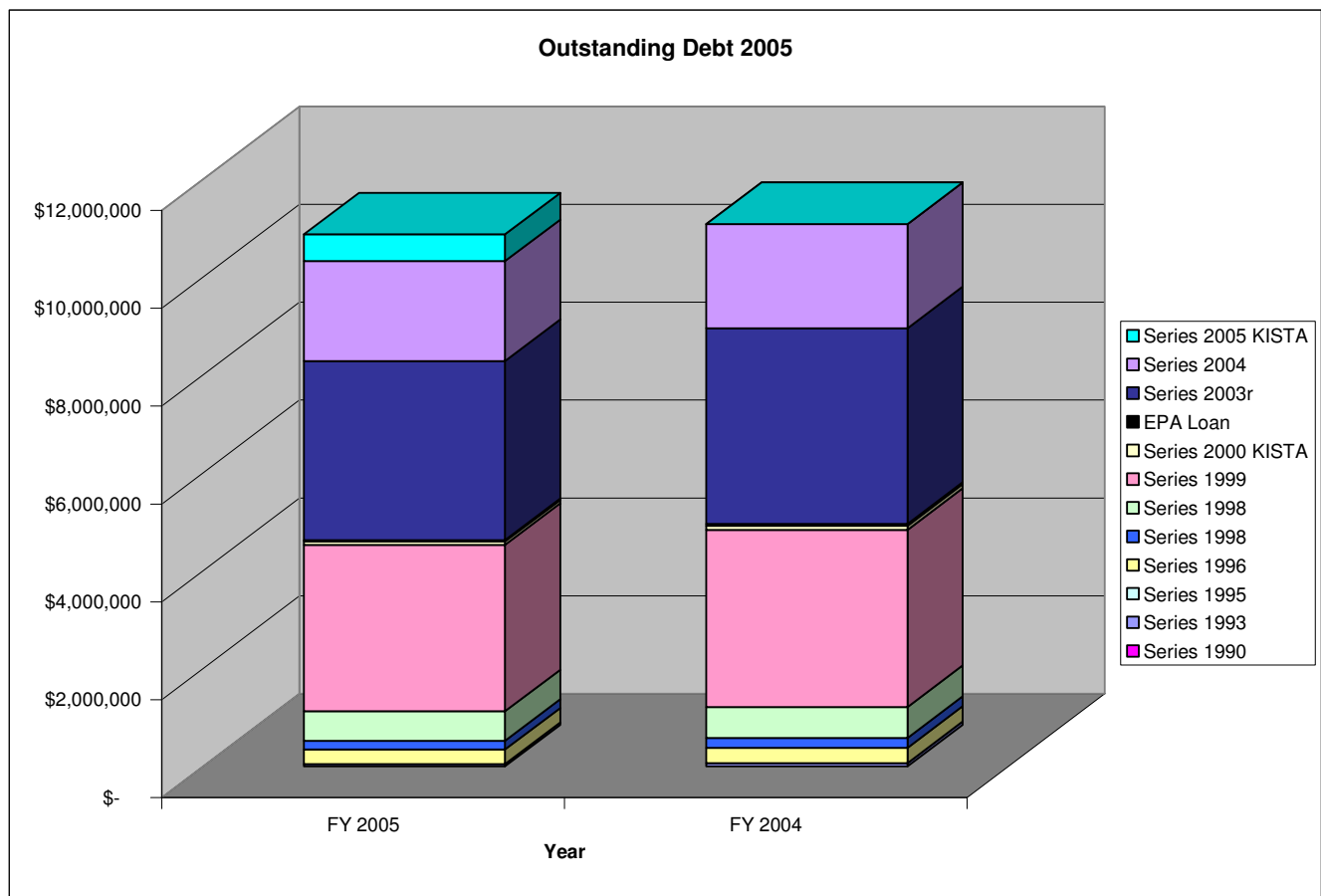
SUMMARY OF CAPITAL ASSETS

Capital Assets	Governmental Activities		Business-Type Activities		District Total		Total District Percentage Change
	FY2004	FY2005	FY2004	FY2005	FY2004	FY2005	2004-2005
Land	5,601,867	5,421,497	\$ -	\$ -	5,601,867	\$ 5,421,497	-3.2%
Construction in Progress	914,294	2,467,476	-	-	914,294	2,467,476	169.9%
Buildings	25,185,236	25,528,473	14,726	-	25,199,962	25,528,473	1.3%
Equipment and Furniture	4,969,434	5,706,051	560,155	571,623	5,529,589	6,277,674	13.5%
Total Assets	\$36,670,831	\$39,123,497	\$574,881	\$571,623	\$37,245,712	\$39,695,120	6.6%

Long-Term Debt

At year-end the district had \$10,876,885 in general obligation bonds outstanding (includes the SFCC portion). The net decrease of these general obligation bonds was \$210,970 which includes bond proceeds in the amount of \$547,869 for KISTA Bus purchasing and a reduction of \$804,631 for current fiscal year principal payments. Due to refinancing of the 1990 and 1995 prior bond obligations in FY 2004, the outstanding balance of \$4,370,000 refinanced in the amount of \$4,920,000 results in \$465,941 deferred issuance discounts and premiums.

General Obligation Bonds	FY 2005	FY 2004
Series 1993	46,920	67,890
Series 1996	295,000	310,000
Series 1998	185,000	204,000
Series 1998	600,000	635,000
Series 1999	3,400,000	3,620,000
Series 2000 KISTA	68,442	81,265
EPA Loan	29,595	41,433
Series 2003r	3,659,059	3,998,267
Series 2004	2,045,000	2,130,000
Series 2005 KISTA	547,869	-
Total	\$ 10,876,885	\$ 11,087,855



BUDGETARY IMPLICATIONS

It is extremely important that the district continue to budget very conservatively. The District receives approximate 56.4% of its general fund revenue each year through the state funding formula (SEEK). The SEEK forecasts from the state should be considered only an estimate of state revenue. If the state does not get the revenue from taxing sources, an adjustment will be made to the funding formula. The District should always be prepared for such reductions in funding.

Approximately 43.3% of the general fund revenue is from local revenue of which 29.1% is from property tax. The major portion of the tax revenue does not come to the district until the fifth-seventh months. This means the general fund's beginning fund balance must be used to absorb much of the first four months of expenditures. Provisions must always be made to have a significant fund beginning balance to start each year.

By law the budget must have a minimum 2% contingency. The District adopted a budget with \$2,000,000 in contingency (5.01% of total budget). The beginning general fund balance for beginning fiscal year 2005 was \$4,851,084. Significant Board action that impacts the finances include a 3.0 % pay raise for all employees, spending toward instructional and technology programs and general fund matching dollars for other grants. The District

currently participates in excess of thirty-five federal and state grants. The total budget for these grants was approximately \$6,755,135. Many of these grants are funded on a reimbursement basis. This requires the district to pay the expenses of the grant and then apply for reimbursement. The District must continue to monitor the grants constantly and get reimbursements in a timely manner. The District must also maintain a significant cash balance in order to pay the expenses of these grants while waiting for reimbursements.

DISTRICT CHALLENGES FOR THE FUTURE

The primary challenges for Owensboro Independent Board of Education are to continue to reach the academic accountability goal of 100% proficient by the year 2014, continue to maintain our facilities, and to increase the average daily attendance percentage.

The District's challenge to reach the academic accountability goal established by the Commonwealth of Kentucky will be accomplished by several means. The primary goal is to maintain our competitive salary schedules to help attract quality leadership, teachers and support staff. The District also needs to continue to maintain our pupil/teacher ratio at levels below the levels recommended by the state. Maintaining several programs will also help the District overcome this challenge. These programs include, but are not limited to, Reading Recovery, full day kindergarten and advancement in the area of technology.

The second challenge mentioned above is to maintain our facilities. The District makes an annual major financial commitment in order to maintain our current facilities. Each year the District budgets approximately \$500,000 of the General Fund revenues for maintenance items. This budget will help the District recovery from any unforeseen major facility repairs, help keep the current facilities in excellent condition and construct any required facilities which are not large enough to require a bond sale.

The third challenge mentioned above is preserving the average daily attendance count. The district receives funding through the SEEK formula based on this count. There are a very few limited number of new homes constructed within the boundaries of the district. Therefore, growth within the district is limited. It is vital that our schools have high attendance percentages and that parents and students continue to choose Owensboro Independent Board of Education when they could be attending elsewhere. Maintaining excellence and emphasizing serving the public are the main factors influencing this district challenge.

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. Questions regarding this report should be directed to Lynn Holland, CPA, MBA, Assistant Superintendent of Business Affairs, located at 1335 West Eleventh Street, Owensboro, KY 42301, by phone 270.686.1000 extension # 234, or by e-mail at Lynn.Holland@owensboro.kyschools.us.

Basic Financial Statements

OWENSBORO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2005

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
ASSETS			
Cash.....	\$ 3,090,146	\$ 617,350	\$ 3,707,496
Investments	5,017,879	0	5,017,879
Accounts receivable:			
Taxes.....	119,895	0	119,895
Accounts.....	5,876	0	5,876
Intergovernmental.....	323,948	172,707	496,655
Interest.....	14,278	0	14,278
Inventory	0	33,327	33,327
Bond issuance costs.....	63,255	0	63,255
Less: accumulated amortization	(7,870)	0	(7,870)
Non-depreciable capital assets.....	5,407,093	0	5,407,093
Depreciable capital assets.....	33,716,404	571,623	34,288,027
Less: accumulated depreciation	(17,993,529)	(458,556)	(18,452,085)
TOTAL ASSETS	<u>29,757,375</u>	<u>936,451</u>	<u>30,693,826</u>
LIABILITIES			
Accounts payable	359,461	34,647	394,108
Accrued liabilities	764,644	0	764,644
Deferred revenue.....	251,251	0	251,251
Accrued interest.....	79,880	0	79,880
Long-term obligations:			
Due within one year:			
Outstanding bonds.....	874,449	0	874,449
Compensated absences	250,444	0	250,444
Due beyond one year:			
Outstanding bonds.....	10,002,436	0	10,002,436
Compensated absences	1,126,909	0	1,126,909
Deferred revenue	338,462	0	338,462
TOTAL LIABILITIES	<u>14,047,936</u>	<u>34,647</u>	<u>14,082,583</u>

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
NET ASSETS			
Invested in capital assets, net of related debt	10,313,271	113,067	10,426,338
Restricted for:			
Construction	1,031,058	0	1,031,058
SFCC.....	354,703	0	354,703
Unrestricted	4,010,407	788,737	4,799,144
TOTAL NET ASSETS	\$ 15,709,439	\$ 901,804	\$ 16,611,243

See accompanying notes to the financial statements.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

		PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS									
		EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL							
GOVERNMENTAL ACTIVITIES															
Instruction.....	\$	20,386,741	\$	171,471	\$	4,147,806	\$	48,720	\$	(16,018,744)	\$	0	\$	(16,018,744)	
Support services:															
Student		2,128,479		0		345,966		0		(1,782,513)		0		(1,782,513)	
Instructional staff.....		2,843,720		0		1,288,659		0		(1,555,061)		0		(1,555,061)	
District administration.....		1,239,721		0		30,000		0		(1,209,721)		0		(1,209,721)	
School administration.....		2,227,090		0		84,314		0		(2,142,776)		0		(2,142,776)	
Business		1,293,102		0		0		0		(1,293,102)		0		(1,293,102)	
Plant operations and maintenance		3,245,907		0		51,471		0		(3,194,436)		0		(3,194,436)	
Student transportation.....		1,273,232		0		20,920		0		(1,252,312)		0		(1,252,312)	
Other		647,423		0		584,932		0		(62,491)		0		(62,491)	
Facilities acquisition and construction.....		0		0		0		797,516		797,516		0		797,516	
Interest on long-term debt		466,154		0		0		476,048		9,894		0		9,894	
Amortization expense.....		4,458		0		0		0		(4,458)		0		(4,458)	
TOTAL GOVERNMENTAL ACTIVITIES		35,756,027		171,471		6,554,068		1,322,284		(27,708,204)		0		(27,708,204)	

BUSINESS-TYPE ACTIVITIES

Food services.....	2,290,976	508,370	1,763,483	0	0	(19,123)	(19,123)
Day care.....	516,661	160,338	269,467	0	0	(86,856)	(86,856)
TOTAL BUSINESS-TYPE ACTIVITIES	2,807,637	668,708	2,032,950	0	0	(105,979)	(105,979)
TOTAL SCHOOL DISTRICT	\$ 38,563,664	\$ 840,179	\$ 8,587,018	\$ 1,322,284	(27,708,204)	(105,979)	(27,814,183)

GENERAL REVENUES

Taxes:

Property.....	7,544,531	0	7,544,531
Motor vehicle	779,496	0	779,496
Utilities.....	2,002,499	0	2,002,499
Other	69,222	0	69,222
State aid	17,642,364	0	17,642,364
Investment earnings	239,975	11,683	251,658
Other	218,295	27,495	245,790
Transfers	86,091	(90,780)	(4,689)
	28,582,473	(51,602)	28,530,871

CHANGE IN NET ASSETS.....	874,269	(157,581)	716,688
----------------------------------	----------------	------------------	----------------

NET ASSETS – BEGINNING OF YEAR, AS ORIGINALLY STATED.....	14,964,088	1,059,385	16,023,473
----------------------------------------------------------------------	-------------------	------------------	-------------------

PRIOR PERIOD ADJUSTMENT.....	(128,918)	0	(128,918)
-------------------------------------	------------------	----------	------------------

NET ASSETS – BEGINNING OF YEAR, AS RESTATED.....	14,835,170	1,059,385	15,894,555
-------------------------------------------------------------	-------------------	------------------	-------------------

NET ASSETS – END OF YEAR	\$ 15,709,439	\$ 901,804	\$ 16,611,243
---------------------------------	----------------------	-------------------	----------------------

OWENSBORO INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	GENERAL FUND	SPECIAL REVENUE FUND	FSPK FUND	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash	\$ 93,855	\$ 14,331	\$ 1,563,496	\$ 1,418,464	\$ 0	\$ 3,090,146
Investments	5,017,879	0	0	0	0	5,017,879
Accounts receivable:						
Taxes	119,895	0	0	0	0	119,895
Accounts	5,876	0	0	0	0	5,876
Intergovernmental	0	323,948	0	0	0	323,948
Interest	14,278	0	0	0	0	14,278
TOTAL ASSETS	\$ 5,251,783	\$ 338,279	\$ 1,563,496	\$ 1,418,464	\$ 0	\$ 8,572,022

**LIABILITIES
AND FUND BALANCES**

LIABILITIES

Accounts payable	\$ 103,418	\$ 25,132	\$ 0	\$ 230,911	\$ 0	\$ 359,461
Accrued liabilities	764,644	0	0	0	0	764,644
Deferred revenue	369,231	220,482	0	0	0	589,713
TOTAL LIABILITIES	1,237,293	245,614	0	230,911	0	1,713,818

FUND BALANCES

Reserved for:						
Construction	90,120	0	0	1,001,126	0	1,091,246
Encumbrances	266,965	24,863	0	0	0	291,828
SFCC	0	0	354,703	0	0	354,703
Site based carryforward	71,506	0	0	0	0	71,506
Compensated absences	250,444	0	0	0	0	250,444
Unreserved	3,335,455	67,802	1,208,793	186,427	0	4,798,477
TOTAL FUND BALANCES	4,014,490	92,665	1,563,496	1,187,553	0	6,858,204

**TOTAL LIABILITIES AND
FUND BALANCES**

\$ 5,251,783	\$ 338,279	\$ 1,563,496	\$ 1,418,464	\$ 0	\$ 8,572,022
---------------------	-------------------	---------------------	---------------------	-------------	---------------------

See accompanying notes to the financial statements.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2005

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS..... \$ 6,858,204

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported as assets in governmental funds. The cost of the
assets is \$39,123,497, and the accumulated depreciation is \$17,993,529. 21,129,968

Bond issuance costs are shown as expenditures on the fund statements. However,
they are reported as assets and amortized on the statement of net assets. Bond
issuance costs at year-end amounted to. 55,385

Long-term liabilities, including bonds payable, are not due and payable in the
current period and, therefore, are not reported as liabilities in the funds. Long-term
liabilities at year-end consist of:

Bonds payable	(10,876,885)
Accrued interest on the bonds	(79,880)
Compensated absences	(1,377,353)

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES \$15,709,439

See accompanying notes to the financial statements.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

	GENERAL FUND	SPECIAL REVENUE FUND	FSPK FUND	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES						
From local sources:						
Taxes:						
Property	\$ 6,952,833	\$ 0	\$ 591,698	\$ 0	\$ 0	\$ 7,544,531
Motor vehicle.....	779,496	0	0	0	0	779,496
Utilities	2,002,499	0	0	0	0	2,002,499
Other.....	69,222	0	0	0	0	69,222
Tuition and fees	171,471	0	0	0	0	171,471
Earnings on investments	211,101	1,292	0	27,582	0	239,975
Other local revenue	162,026	286,380	0	0	0	448,406
Intergovernmental – state	17,642,364	1,556,761	444,476	0	829,088	20,472,689
Intergovernmental – federal	60,620	4,759,647	0	0	0	4,820,267
TOTAL REVENUES	28,051,632	6,604,080	1,036,174	27,582	829,088	36,548,556
EXPENDITURES						
Current:						
Instruction	15,276,060	4,218,252	0	0	0	19,494,312
Support services:						
Student.....	1,775,145	345,966	0	0	0	2,121,111
Instructional staff	1,548,563	1,288,659	0	0	0	2,837,222

District administration.....	1,198,931	30,000	501	0	400	1,229,832
School administration.....	2,151,898	84,314	0	0	0	2,236,212
Business	1,310,919	0	0	0	0	1,310,919
Plant operations and maintenance	3,211,919	51,471	0	0	0	3,263,390
Student transportation.....	1,645,779	20,920	0	0	0	1,666,699
Other	59,247	584,932	0	0	475	644,654
Debt service:						
Principal.....	0	0	0	0	804,631	804,631
Interest.....	0	0	0	0	416,906	416,906
Capital outlay:						
Facilities acquisition and construction	0	0	0	1,835,535	0	1,835,535
TOTAL EXPENDITURES	28,178,461	6,624,514	501	1,835,535	1,222,412	37,861,423
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(126,829)	(20,434)	1,035,673	(1,807,953)	(393,324)	(1,312,867)
OTHER FINANCING SOURCES (USES)						
Bond proceeds	547,869	0	0	0	0	547,869
Operating transfers	(1,257,634)	77,472	(101,509)	967,221	393,324	78,874
TOTAL OTHER FINANCING SOURCES (USES)	(709,765)	77,472	(101,509)	967,221	393,324	626,743
NET CHANGE IN FUND BALANCES.....	(836,594)	57,038	934,164	(840,732)	0	(686,124)
FUND BALANCES – BEGINNING OF YEAR, AS ORIGINALLY STATED	4,980,002	35,627	629,332	2,028,285	0	7,673,246
PRIOR PERIOD ADJUSTMENT	(128,918)	0	0	0	0	(128,918)
FUND BALANCES– BEGINNING OF YEAR, RESTATED	4,851,084	35,627	629,332	2,028,285	0	7,544,328
FUND BALANCES – END OF YEAR	\$ 4,014,490	\$ 92,665	\$ 1,563,496	\$ 1,187,553	\$ 0	\$ 6,858,204

See accompanying notes to the financial statements.

**OWENSBORO INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005**

TOTAL NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS \$ (686,124)

Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays are reported in governmental funds as expenditures. However,
in the statement of activities, the cost of those assets is allocated over their
estimated useful lives as depreciation expense. This is the amount by which
capital outlays (\$2,874,324) exceeds depreciation expense (\$1,158,663)
in the period. 1,715,661

Gains and losses are not presented in governmental funds because they do not
provide or use current financial resources. However, they are presented on the
statement of activities. The difference between proceeds from the sale of assets
and the actual gain/loss from the sale net to this amount for the year. 3,266

Repayment of bond principal is an expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the statement of net assets. 804,631

The proceeds for the issuance of bonds provide current financial resources and are
reported in the fund statements, but they are presented as liabilities in the statement
of net assets. (547,869)

Expenditures reported in the fund financial statements are recognized when the current
financial resource is used. However, expenses in the statement of activities are
recognized when they are incurred. (415,296)

CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES \$ 874,269

See accompanying notes to the financial statements.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2005

	ENTERPRISE FUND FOOD SERVICE	ENTERPRISE FUND DAY CARE	TOTAL
ASSETS			
CURRENT ASSETS			
Cash	\$ 465,380	\$ 151,970	\$ 617,350
Accounts receivable:			
Intergovernmental.....	172,707	0	172,707
Inventory	33,327	0	33,327
TOTAL CURRENT ASSETS	671,414	151,970	823,384
NON-CURRENT ASSETS			
Fixed assets – net.....	109,486	3,581	113,067
TOTAL ASSETS	\$ 780,900	\$ 155,551	\$ 936,451
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 32,960	\$ 1,687	\$ 34,647
TOTAL CURRENT LIABILITIES	32,960	1,687	34,647
NET ASSETS			
Invested in capital assets.....	109,486	3,581	113,067
Unrestricted	638,454	150,283	788,737
TOTAL NET ASSETS	747,940	153,864	901,804
TOTAL LIABILITIES AND NET ASSETS	\$ 780,900	\$ 155,551	\$ 936,451

See accompanying notes to the financial statements.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005

	ENTERPRISE FUND FOOD SERVICE	ENTERPRISE FUND DAY CARE	TOTAL
OPERATING REVENUES			
Lunchroom sales.....	\$ 508,370	\$ 0	\$ 508,370
Tuition and fees	0	160,338	160,338
TOTAL OPERATING REVENUES	508,370	160,338	668,708
OPERATING EXPENSES			
Salaries and wages.....	1,165,671	491,774	1,657,445
Contract services	12,594	0	12,594
Materials and supplies.....	1,057,726	17,822	1,075,548
Other operating expenses	26,617	6,270	32,887
Depreciation expense	28,368	795	29,163
TOTAL OPERATING EXPENSES	2,290,976	516,661	2,807,637
OPERATING LOSS	(1,782,606)	(356,323)	(2,138,929)
NON-OPERATING REVENUES			
State operating grants.....	208,372	252,128	460,500
Federal operating grants	1,464,090	17,339	1,481,429
Donated commodities	91,021	0	91,021
Interest revenue	11,683	0	11,683
Other.....	26,505	990	27,495
TOTAL NON-OPERATING REVENUES	1,801,671	270,457	2,072,128
INCOME (LOSS) BEFORE TRANSFERS	19,065	(85,866)	(66,801)
TRANSFERS	(119,542)	28,762	(90,780)
CHANGE IN NET ASSETS	(100,477)	(57,104)	(157,581)
TOTAL NET ASSETS – BEGINNING OF YEAR	848,417	210,968	1,059,385
TOTAL NET ASSETS – END OF YEAR	\$ 747,940	\$ 153,864	\$ 901,804

See accompanying notes to the financial statements.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005

	ENTERPRISE FUND FOOD SERVICE	ENTERPRISE FUND DAY CARE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from user charges	\$ 362,880	\$ 161,479	\$ 524,359
Cash payments to employees for services	(1,165,671)	(491,774)	(1,657,445)
Cash payments for contract services	(12,594)	0	(12,594)
Cash payments to suppliers for goods and services.....	(927,983)	(17,418)	(945,401)
Cash payments for other operating expenses	(26,617)	(6,270)	(32,887)
NET CASH USED IN OPERATING ACTIVITIES	(1,769,985)	(353,983)	(2,123,968)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Nonoperating grants received.....	1,672,462	269,467	1,941,929
Operating subsidies and transfers to other funds ...	(119,542)	35,979	(83,563)
Other.....	26,505	990	27,495
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	1,579,425	306,436	1,885,861
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets.....	(8,364)	(3,104)	(11,468)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(8,364)	(3,104)	(11,468)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments.....	11,683	0	11,683
NET CASH PROVIDED BY INVESTING ACTIVITIES	11,683	0	11,683
NET DECREASE IN CASH	(187,241)	(50,651)	(237,892)
CASH – BEGINNING OF YEAR	652,621	202,621	855,242
CASH – END OF YEAR	\$ 465,380	\$ 151,970	\$ 617,350

	ENTERPRISE FUND FOOD SERVICE	ENTERPRISE FUND DAY CARE	TOTAL
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES			
Operating loss.....	\$ (1,782,606)	\$ (356,323)	\$ (2,138,929)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	28,368	795	29,163
Commodities used.....	91,021	0	91,021
Changes in assets and liabilities:			
Receivables	(145,490)	1,141	(144,349)
Inventories	20,392	0	20,392
Accounts payable.....	18,330	404	18,734
NET CASH USED IN OPERATING ACTIVITIES	\$ (1,769,985)	\$ (353,983)	\$ (2,123,968)

**NONCASH CAPITAL AND RELATED FINANCING
ACTIVITIES**

- The food service fund received \$91,021 of donated commodities from the federal government.

See accompanying notes to the financial statements.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2005

	<u>AGENCY FUNDS</u>
ASSETS	
ASSETS	
Cash.....	\$ 454,370
Accounts receivable.....	<u>12,316</u>
TOTAL ASSETS	<u>\$ 466,686</u>
LIABILITIES	
LIABILITIES	
Accounts payable	\$ 2,954
Scholarships payable.....	20,810
Due to student groups	<u>442,922</u>
TOTAL LIABILITIES	<u>\$ 466,686</u>

See accompanying notes to the financial statements.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

● **Reporting Entity**

The Owensboro Independent Board of Education (the "Board"), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Owensboro Independent School District (the "District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards* as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Owensboro Independent School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc., except for those funds administered as an activity in the agency funds.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Owensboro Independent School District Finance Corporation — The Owensboro Independent Board of Education resolved to authorize the establishment of the Owensboro Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Owensboro Independent Board of Education also comprise the Corporation's Board of Directors.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Basis of Presentation**

Government-wide Financial Statements — The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Fund Financial Statements — Fund financial statements report detailed information about the District's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

► **Governmental Fund Types**

The *General Fund* is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. The General Fund is a major fund.

The *Special Revenue Fund* accounts for proceeds of specific revenue sources (other than debt service, enterprise funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards included in this report. In addition, the Kentucky Education Technology System (KETS) allocation and local district matching funds

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

are being recorded in the Special Revenue Fund as required by the Kentucky Department of Education. These funds are restricted for the purchase of technology consistent with the District's approved technology plan. The Special Revenue Fund is a major fund.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

The *Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund* receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.

The *Facility Support Program of Kentucky Fund (FSPK)* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds are restricted for use in financing projects identified in the District's facility plan. The FSPK fund is a major fund.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. The Construction Fund is a major fund.

The *Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost as required by Kentucky law.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

► **Proprietary Fund Types**

Enterprise Funds

The *School Food Service Fund* is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contributions of commodities from the USDA. The School Food Service Fund is a major fund.

The *Day Care Fund* is used to account for after-school and summer day care services offered to the general public.

To the proprietary activities, the District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

► **Fiduciary Fund Types** (includes agency funds)

Fiduciary funds account for assets held by the District in a trustees capacity or as an agent on behalf of others.

Agency Funds

The *Activity Fund* accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*. The *Museum Fund* accounts for the payroll expenditures related to the City Museum. Amounts are subsequently reimbursed by the City of Owensboro.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

The records of the District are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the General Fund, Special Revenue Fund and Capital Projects Funds.

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net assets.

The financial statements of the governmental fund types are on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The Proprietary Funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

● **Investments**

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

● **Inventory**

Supplies and materials are charged to expenditures when purchased (purchases method) with the exception of the Proprietary Funds, which records inventory at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

Description	Estimated Lives
Buildings and improvements	25–50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5–10 years
Audio-visual equipment	15 years
Food service equipment	10–12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other.....	10 years

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

● **Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

● **Compensated Absences**

The District uses the vesting method to compute compensated absences for sick leave. Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated unused sick leave time when earned for all employees with more than five years of service.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "*matured compensated absences payable*" in the funds from which the employees will be paid.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

● **Fund Equity**

Reservations of fund balance represent amounts that are not appropriable or legally segregated for a specific purpose. Reservations of net assets are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change.

● **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

● **Property Taxes**

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September Board meeting. Assuming property tax bills are timely mailed, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

● **Revenues — Exchange and Nonexchange Transactions**

Revenues resulting from exchange transactions are where each party receives equal value. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivables are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September. On the modified accrual basis, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Revenues from nonexchange transactions must also be available before they can be recognized.

● **Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

and as nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

● **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

● **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are sales for food service and fees for day care services. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

● **Encumbrance Accounting**

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2005. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 2: CASH AND INVESTMENTS

● **Deposits**

At June 30, 2005, the carrying amounts of the District's deposits were \$5,217,336 and the bank balances were \$6,739,461, of which \$6,739,461 was covered by federal depository insurance or by collateral held by the bank's agent in the District's name.

The carrying amounts of cash and investments are reflected in the financial statements as follows:

Governmental funds.....	\$ 4,145,616
Proprietary funds.....	617,350
Fiduciary funds.....	454,370
	<u>\$ 5,217,336</u>

► *Custodial Credit Risk — Deposits*

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's investment policy requires the District's finance officer to monitor the safety of investments. Also, the District is required by state statute that bank deposits in excess of FDIC insurance must be collateralized. The District's bank balance was not exposed to custodial credit risk as of June 30, 2005.

● **Investments**

<u>Investment</u>	<u>Rating</u>	<u>Maturities</u>	<u>Fair Value</u>
Cash.....	N/R	On Demand	\$ 37,040
CD.....	N/R	2/27/2006	256,223
CD.....	N/R	8/27/2005	255,354
CD.....	N/R	1/4/2006	506,853
Federal Home Loan Mortgage Corporation.....	AAA	2/1/2009	720,569
Federal Home Loan Mortgage Corporation.....	AAA	2/1/2009	652,432
Federal Home Loan Mortgage Corporation.....	AAA	3/1/2009	782,246
Federal Home Loan Mortgage Corporation.....	AAA	1/1/2010	958,224
Federal National Mortgage Corporation	AAA	6/1/2014	848,938
		Total	<u>\$ 5,017,879</u>

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 2: CASH AND INVESTMENTS (Continued)

► *Interest Rate Risk*

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

► *Credit Risk*

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds. The District's investment policy only allows investment choices that are in compliance with the state statutes.

► *Concentration of Credit Risk*

The District's investment policy places no limit on the amount the District may invest in any one issuer. However, the amount of money the District invests at any time in uncollateralized certificates of deposit issued by any bank, bankers acceptances for banks, commercial paper or securities issued by a state or local government or any agency thereof shall not exceed individually or in total 20% of total investments. More than 5 percent of the District's investments are in Federal Home Loan Mortgage and Federal National Mortgage Association and Independence Bank certificates of deposit. These investments are 62%, 17% and 20%, respectively, of the District's total investments.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental Activities:				
Capital assets that are not depreciated:				
Land.....	\$ 2,939,617	\$ 0	\$ 0	\$ 2,939,617
Construction in progress	914,294	1,839,683	286,501	2,467,476
Total Nondepreciable Historical Cost	3,853,911	1,839,683	286,501	5,407,093
Capital assets that are depreciated:				
Land improvements.....	2,662,250	44,348	224,718	2,481,880
Buildings and improvements	25,185,236	584,140	240,903	25,528,473
Technology equipment.....	2,469,856	410,678	37,881	2,842,653
Vehicles	1,992,924	527,402	215,795	2,304,531
General	506,654	52,213	0	558,867
Total Depreciable Historical Cost	32,816,920	1,618,781	719,297	33,716,404
Less accumulated depreciation for:				
Land improvements.....	1,399,194	130,163	118,913	1,410,444
Buildings and improvements	12,309,519	562,538	55,194	12,816,863
Technology equipment.....	1,936,873	252,226	37,881	2,151,218
Vehicles	1,397,399	165,397	212,536	1,350,260
General	216,405	48,339	0	264,744
Total Accumulated Depreciation	17,259,390	1,158,663	424,524	17,993,529
Total Depreciable Historical Cost, Net	15,557,530	460,118	294,773	15,722,875
Governmental Activities, Capital Assets, Net	\$ 19,411,441	\$ 2,299,801	\$ 581,274	\$ 21,129,968

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 3: CAPITAL ASSETS (Continued)

	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Business-Type Activities:				
Capital assets that are depreciated:				
Buildings and improvements	\$ 14,726	\$ 0	\$ 14,726	\$ 0
Technology equipment.....	21,383	11,468	0	32,851
Vehicles	8,100	0	0	8,100
General	530,672	0	0	530,672
Total Depreciable Historical Cost	574,881	11,468	14,726	571,623
Less accumulated depreciation for:				
Buildings and improvements	7,215	294	7,509	0
Technology equipment.....	18,742	2,631	0	21,373
Vehicles	8,100	0	0	8,100
General	402,845	26,238	0	429,083
Total Accumulated Depreciation	436,902	29,163	7,509	458,556
Business-Type Activities, Capital Assets, Net	\$ 137,979	\$ (17,695)	\$ 7,217	\$ 113,067

Depreciation expense was charged to governmental functions as follows:

Instruction.....	\$ 938,183
Student.....	8,177
Instructional staff.....	15,390
District administration.....	11,889
School administration.....	12,167
Business.....	4,920
Plant operations and maintenance	31,233
Student transportation.....	133,935
Other	2,769
Total Depreciation Expense	\$ 1,158,663

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 4: LONG-TERM DEBT

The original amount of each issue, the issue date and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
December 1, 1993	\$ 261,686	4.375%
August 1, 1996	410,000	4.25%—5.90%
May 1, 1998	805,000	4.15%—5.10%
June 1, 1998	300,000	4.15%—5.10%
June 1, 1999	4,615,000	3.65%—4.70%
January 1, 2000	131,275	4.30%—5.30%
July 1, 2003	4,920,000	1.25%—3.25%
April 1, 2004	2,130,000	2.10%—4.625%
January 1, 2005	547,869	2.88%

Long-term debt also includes amounts due totaling \$29,595 at June 30, 2005 under a loan agreement with the U.S. Environmental Protection Agency (EPA). The District entered into an agreement with the EPA for financial assistance to remove asbestos from Foust Elementary School during fiscal year 1988. Upon final inspection of the project by the EPA in September 1988, reimbursements received from the EPA totaling \$213,084 became a non-interest bearing loan, payable in equal semi-annual installments of \$5,919, beginning in June of 1990, with the final installment due on July 31, 2008.

On July 1, 2003, the District completed an advance refunding. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt by \$456,665. The difference reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2015 using the effective-interest method. The District completed the advance refunding to reduce its total debt service payments over the next twelve years by \$291,990 and to obtain an economic gain of \$253,891.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 4: LONG-TERM DEBT (Continued)

The District, through the General Fund, including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Funds, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Owensboro Independent School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has entered into "participation agreements" with the School Facility Construction Commission (SFCC). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2005 for debt service (principal and interest) are as follows:

Year	Owensboro Independent School District		School Facility Construction Commission		Total Debt Service
	Interest	Principal	Interest	Principal	
2005—2006	\$ 205,959	\$ 614,770	\$ 209,583	\$ 259,679	\$ 1,289,991
2006—2007	189,214	632,907	201,347	266,236	1,289,704
2007—2008	171,609	589,129	192,606	278,297	1,231,641
2008—2009	153,974	591,366	182,980	285,882	1,214,202
2009—2010	135,400	602,568	172,620	293,905	1,204,493
2010—2011	115,174	543,163	161,461	307,430	1,127,228
2011—2012	97,136	556,647	149,389	321,531	1,124,703
2012—2013	78,154	580,139	136,445	331,055	1,125,793
2013—2014	58,891	559,558	122,845	346,139	1,087,433
2014—2015	39,182	575,682	108,242	361,743	1,084,849
2015—2016	18,682	105,948	92,794	334,052	551,476

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 4: LONG-TERM DEBT (Continued)

Year	Owensboro Independent School District		School Facility Construction Commission		Total Debt Service
	Interest	Principal	Interest	Principal	
2016—2017	13,240	110,459	77,905	344,541	546,145
2017—2018	8,661	89,476	62,193	360,524	520,854
2018—2019	4,456	94,799	45,753	315,201	460,209
2019—2020	0	0	31,419	125,000	156,419
2020—2021	0	0	25,794	130,000	155,794
2021—2022	0	0	19,944	140,000	159,944
2022—2023	0	0	13,644	145,000	158,644
2023—2024	0	0	6,938	150,000	156,938
	<u>\$ 1,289,732</u>	<u>\$ 6,246,611</u>	<u>\$ 2,013,902</u>	<u>\$ 5,096,215</u>	<u>\$ 14,646,460</u>

Long-term liability activity for the year ended June 30, 2005 was as follows:

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005	Amounts Due Within One Year
Governmental Activities:					
Bonds and notes payable:					
General obligation debt	\$ 11,599,588	\$ 547,869	\$ (804,631)	\$ 11,342,826	\$ 874,449
Less deferred issuance discounts and premiums	(93,904)	0	6,957	(86,947)	0
Less deferred amount on refundings	(417,829)	0	38,835	(378,994)	0
Total Bonds and Notes Payable	<u>11,087,855</u>	<u>547,869</u>	<u>(758,839)</u>	<u>10,876,885</u>	<u>874,449</u>
Other liabilities:					
Compensated absences	1,016,163	524,600	(163,410)	1,377,353	250,444
Total Other Liabilities	<u>1,016,163</u>	<u>524,600</u>	<u>(163,410)</u>	<u>1,377,353</u>	<u>250,444</u>
Total Long-Term Liabilities	<u>\$ 12,104,018</u>	<u>\$ 1,072,469</u>	<u>\$ (922,249)</u>	<u>\$ 12,254,238</u>	<u>\$ 1,124,893</u>

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 5: LEASES

The District leases vehicles, copiers, and postage meters under cancelable operating leases. Commitments under operating lease agreements provide for minimum future rental payments as of June 30, 2005, as follows:

2006.....	\$	84,363
2007.....		50,026
2008.....		18,748
2009.....		<u>4,400</u>
	\$	<u>157,537</u>

Rental expense for all operating leases totaled \$86,204 for the year ended June 30, 2005.

A preschool center was constructed during fiscal year 1997. Costs for the project were financed with \$391,050 in proceeds from bonds issued by the District on August 1, 1996 and \$700,000 from Audubon Area Community Services (AACS), as provided for under a lease agreement dated July 19, 1996. This agreement provided for a one-time payment from AACS of \$700,000 to be used for construction costs, and the subsequent lease to AACS of seven classrooms and office space in the preschool center for a period of 20 years, during which lease term the District will waive rental payments. After the 20 year period, the lease may be renewed for additional one-year terms at a negotiated fair rental payment. The District is responsible for maintenance and utilities for the first seven years of the lease, after which such costs will be shared equally with AACS. The \$700,000 payment was recorded in the General Fund and then transferred to the Construction Fund, out of which project costs were paid. Rental income, which is being recognized over the 20 year lease term in the General Fund, totaled \$30,769 for fiscal year 2005, resulting in deferred revenue of \$369,231 at June 30, 2005. The lease is subject to renewal as of July 1 each year and may be terminated by the parties upon written notice 90 days prior to the annual renewal date, at which time the balance of deferred revenue would be refunded to AACS.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 6: PENSION PLANS

► *Plan Descriptions*

The Owensboro Independent School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS) and the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plans. KTRS and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issue a publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or by calling (502) 573-3266. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

► *Funding Policy*

KTRS and CERS plan members are required to contribute 9.855% and 5.00%, respectively, of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS and CERS is 13.105% and 8.48% of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2005, 2004 and 2003 were \$549,069, \$454,152 and \$368,628, respectively, equal to the required contributions for each year.

For the year ended June 30, 2005, the Commonwealth contributed \$2,050,523 to the KTRS for the benefit of the District's participating employees. The District's contributions to the KTRS for the year ended June 30, 2005 were \$297,549, which represents those employees covered by federal programs.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 6: PENSION PLANS (Continued)

The amount recognized for revenues and expenditures for on-behalf payments relating to fringe benefits for the year ended June 30, 2005 was \$4,361,789 for governmental funds and \$270,860 for proprietary funds.

NOTE 7: CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE 8: INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which include workers' compensation insurance.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 9: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage.

Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 10: EXCESS EXPENDITURES OVER APPROPRIATIONS

The District has no funds with a deficit fund balance. However, the following funds had excess current year expenditures over current year appropriated revenues:

<u>Fund</u>	<u>Amount</u>
General	\$ 836,594
Construction	840,732
Food Service	100,477
Day Care	57,104

NOTE 11: FUND TRANSFERS

Fund transfers for the year ended June 30, 2005 consist of the following:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Debt Service	Debt Service	\$ 17,002
General	Special Revenue	Matching	84,720
General	Construction	Construction	1,242,034
General	Day Care	Operating	35,979
Special Revenue	General	Indirect Costs	2,559
Special Revenue	Private Purpose Trust	Operating	4,689
SEEK Fund	Debt Service	Debt Service	352,640
FSPK	Debt Service	Debt Service	376,322
FSPK	Construction	Construction	79,890
Construction	FSPK	Construction	354,703
Food Service	General	Indirect Costs	119,542
Day Care	—	Transfer of Building	7,217

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 12: PRIOR PERIOD ADJUSTMENT

In the fund financial statements, as well as the government-wide financial statements, for the year ended June 30, 2004, an error was made in reconciling cash balances in the general fund. The net effect was to decrease cash and fund balance for the general fund by \$128,918. The adjustment correspondingly affected the government-wide statements by decreasing cash and unrestricted net assets by \$128,918.

Required Supplemental Information

OWENSBORO INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2005

	BUDGETED AMOUNTS		ACTUAL (BUDGETARY BASIS)	VARIANCES FAVORABLE (UNFAVORABLE) FINAL TO ACTUAL
	ORIGINAL	FINAL		
REVENUES				
Local and intermediate sources	\$ 9,468,688	\$ 9,172,071	\$ 10,348,648	\$ 1,176,577
Intergovernmental — state.....	13,311,312	13,196,673	13,280,575	83,902
Intergovernmental — federal.....	0	0	60,620	60,620
TOTAL REVENUES	22,780,000	22,368,744	23,689,843	1,321,099
EXPENDITURES				
Current:				
Instruction	12,896,530	12,826,016	12,614,505	211,511
Support services:				
Student	1,511,752	1,631,850	1,469,624	162,226
Instructional staff.....	2,054,386	1,842,208	1,225,416	616,792
District administration.....	3,403,822	3,731,147	1,175,429	2,555,718
School administration.....	1,811,415	1,822,435	1,881,630	(59,195)
Business	519,806	1,724,411	1,193,411	531,000
Plant operations and maintenance	2,839,237	2,963,378	2,835,894	127,484
Student transportation.....	1,003,718	799,167	1,410,763	(611,596)
Central office.....	574,735	0	0	0
Other.....	212,808	10,000	10,000	0
TOTAL EXPENDITURES	26,828,209	27,350,612	23,816,672	3,533,940

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,048,209)	(4,981,868)	(126,829)	4,855,039
OTHER FINANCING SOURCES (USES)				
Bond proceeds.....	0	0	547,869	547,869
Operating transfers	48,210	84,883	(1,257,634)	(1,342,517)
TOTAL OTHER FINANCING SOURCES (USES)	48,210	84,883	(709,765)	(794,648)
NET CHANGE IN FUND BALANCE	(3,999,999)	(4,896,985)	(836,594)	4,060,391
FUND BALANCE – BEGINNING OF YEAR, AS ORIGINALLY STATED	4,980,002	4,980,002	4,980,002	0
PRIOR PERIOD ADJUSTMENT	0	0	(128,918)	(128,918)
FUND BALANCE – BEGINNING OF YEAR, RESTATED	4,980,002	4,980,002	4,851,084	(128,918)
FUND BALANCE – END OF YEAR	\$ 980,003	\$ 83,017	\$ 4,014,490	\$ 3,931,473

EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

Inflows/revenues:

Actual amounts (budgetary basis)	\$ 23,689,843
Differences — budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budget amounts	4,361,789

**Total Revenues as Reported on Statement of Revenues, Expenditures and Changes
in Fund Balances — Governmental Funds**

\$ 28,051,632

Outflows/expenditures:

Actual amounts (budgetary basis)	\$ 23,816,672
Differences — budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budget amounts	4,361,789

**Total Expenditures as Reported on Statement of Revenues, Expenditures and Changes
in Fund Balances — Governmental Funds**

\$ 28,178,461

OWENSBORO INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE SPECIAL REVENUE FUND
For the Year Ended June 30, 2005

	BUDGETED AMOUNTS			VARIANCES FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL (GAAP BASIS)	FINAL TO ACTUAL
REVENUES				
Local and intermediate sources.....	\$ 350,072	\$ 350,072	\$ 287,672	\$ (62,400)
Intergovernmental — state	1,651,754	1,651,754	1,556,761	(94,993)
Intergovernmental — federal	5,969,696	5,969,696	4,759,647	(1,210,049)
TOTAL REVENUES	7,971,522	7,971,522	6,604,080	(1,367,442)
EXPENDITURES				
Current:				
Instruction	4,153,715	4,153,715	4,218,252	(64,537)
Support services:				
Student.....	346,606	346,606	345,966	640
Instructional staff	1,352,818	1,352,818	1,288,659	64,159
District administration.....	47,647	47,647	30,000	17,647
School administration.....	0	0	84,314	(84,314)
Plant operations and maintenance.....	49,125	49,125	51,471	(2,346)
Student transportation.....	18,149	18,149	20,920	(2,771)
Other	590,749	590,749	584,932	5,817
TOTAL EXPENDITURES	6,558,809	6,558,809	6,624,514	(65,705)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,412,713	1,412,713	(20,434)	(1,433,147)

OTHER FINANCING SOURCES (USES)

Operating transfers.....	(34,810)	(34,810)	77,472	112,282
TOTAL OTHER FINANCING SOURCES (USES)	<u>(34,810)</u>	<u>(34,810)</u>	<u>77,472</u>	<u>112,282</u>
NET CHANGE IN FUND BALANCE.....	1,377,903	1,377,903	57,038	(1,320,865)
FUND BALANCE – BEGINNING OF YEAR.....	<u>35,627</u>	<u>35,627</u>	<u>35,627</u>	<u>0</u>
FUND BALANCE – END OF YEAR	<u><u>\$ 1,413,530</u></u>	<u><u>\$ 1,413,530</u></u>	<u><u>\$ 92,665</u></u>	<u><u>\$ (1,320,865)</u></u>

Supplemental Information

OWENSBORO INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

	SEEK FUND	DEBT SERVICE FUND	TOTAL OTHER GOVERNMENTAL FUNDS
REVENUES			
Intergovernmental — state	\$ 353,040	\$ 476,048	\$ 829,088
TOTAL REVENUES	<u>353,040</u>	<u>476,048</u>	<u>829,088</u>
EXPENDITURES			
Current:			
Support services:			
District administration	400	0	400
Other	0	475	475
Debt service:			
Principal	0	804,631	804,631
Interest	0	416,906	416,906
TOTAL EXPENDITURES	<u>400</u>	<u>1,222,012</u>	<u>1,222,412</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>352,640</u>	<u>(745,964)</u>	<u>(393,324)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers	(352,640)	745,964	393,324
TOTAL OTHER FINANCING SOURCES (USES)	<u>(352,640)</u>	<u>745,964</u>	<u>393,324</u>
NET CHANGE IN FUND BALANCES	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES — BEGINNING OF YEAR	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES — END OF YEAR	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

OWENSBORO INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF ASSETS AND LIABILITIES
ALL SCHOOL ACTIVITY FUNDS
AGENCY FUNDS
June 30, 2005

	CASH JUNE 30, 2005	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2005
Hager Preschool	\$ 1,890	\$ 0	\$ 0	\$ 1,890
Cravens Elementary.....	59,837	0	0	59,837
Estes Elementary.....	22,994	0	138	22,856
Foust Elementary.....	10,304	0	0	10,304
Newton Parrish Elementary.....	18,487	0	0	18,487
Seven Hills Elementary	6,157	0	0	6,157
Sutton Elementary	7,933	0	71	7,862
5 th – 6 th Center	90,076	0	0	90,076
Owensboro Middle School	72,018	1,641	2,245	71,414
Owensboro High School	154,539	0	500	154,039
TOTAL	\$ 444,235	\$ 1,641	\$ 2,954	\$ 442,922

OWENSBORO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
OWENSBORO HIGH SCHOOL
June 30, 2005

	CASH JUNE 30, 2005	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2005
Football Booster Club	\$ 4,868	\$ 0	\$ 0	\$ 4,868
Athletic Booster Club	862	0	0	862
Soccer Booster Club	1,714	0	0	1,714
Intramurals	215	0	0	215
Swim Team Fund	464	0	0	464
Cheer – Red Squad	7,023	0	0	7,023
Football Sign	3,110	0	0	3,110
Football Fundraiser	6,180	0	0	6,180
Devilettes	2,954	0	0	2,954
Boys' Basketball Funds	41	0	0	41
Softball Fundraising	461	0	0	461
Baseball Fundraising	5,596	0	0	5,596
Baseball Concessions	1,313	0	0	1,313
Cross County Invit.	2,639	0	0	2,639
Instructional Fees	3,989	0	0	3,989
Art Fees	1,125	0	0	1,125
Business Education	738	0	0	738
Driver's Ed Fees	6,205	0	0	6,205
English	374	0	0	374
Foreign Language	943	0	0	943
Family and Consumer	143	0	0	143
Math	541	0	0	541
Science	482	0	0	482
Weather Station	1,827	0	0	1,827
Special Education	833	0	0	833
Step Team	1,079	0	0	1,079
Social Studies	289	0	0	289
Tech Lab Fees	856	0	0	856
Horticulture Fees	6,445	0	0	6,445
PE IV Youngman	598	0	0	598
PE I	72	0	0	72

	CASH JUNE 30, 2005	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2005
PE Fees – 9 th Grade	3,735	0	0	3,735
Video Production.....	506	0	0	506
Job Squad.....	20	0	0	20
Teacher Donations.....	601	0	0	601
Vending – Student	2,450	0	0	2,450
Vending – Adult.....	389	0	0	389
OHS Academic	500	0	0	500
Magazine Sales	5,816	0	0	5,816
Knotholes	421	0	0	421
Yearbook.....	4,305	0	0	4,305
Scoop.....	124	0	0	124
Seal.....	88	0	0	88
Art Club.....	844	0	0	844
CO-ED-Y Club	419	0	0	419
Academic Team	369	0	0	369
ACT Prep Class	489	0	0	489
FBLA.....	218	0	0	218
FCA.....	22	0	0	22
FHA/FCCLA	686	0	0	686
World of Work	418	0	0	418
National Honor Society	1,421	0	0	1,421
Science Club.....	36	0	0	36
JKG – Jobs for KY	1,744	0	0	1,744
Drama	1,202	0	500	702
Science Fair	254	0	0	254
JROTC.....	2,961	0	0	2,961
Tennis Fundraising	484	0	0	484
Foreign Language Club	321	0	0	321
SIA/Interact	13	0	0	13
Stars	798	0	0	798
Student Council.....	1,811	0	0	1,811
Chess Club	889	0	0	889
Craft Club.....	124	0	0	124
Band	17,972	0	0	17,972
Band Truck.....	800	0	0	800
Band New York Trip.....	2,247	0	0	2,247

OWENSBORO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ASSETS AND LIABILITIES (CONTINUED)
SCHOOL ACTIVITY FUNDS
OWENSBORO HIGH SCHOOL
June 30, 2005

	CASH JUNE 30, 2005	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2005
Orchestra	962	0	0	962
Choir	92	0	0	92
Miscellaneous	7	0	0	7
JTPA – NSA	180	0	0	180
PSTO	4,440	0	0	4,440
Quill & Scroll	79	0	0	79
Flower Fund	66	0	0	66
Drama Foundation	678	0	0	678
Youth Crime Watch	885	0	0	885
Youth Service Center	4,264	0	0	4,264
Proj. Prom/Grad	8,658	0	0	8,658
Champion (SADD)	304	0	0	304
Junior Class/Prom	6,015	0	0	6,015
Senior Activities	1,623	0	0	1,623
S.H.O.C.	2	0	0	2
Interest	2,870	0	0	2,870
Media Center	664	0	0	664
Burlew Scholarship	50	0	0	50
Perserverance Award	20	0	0	20
Andrea Stephen	90	0	0	90
Renaissance	309	0	0	309
Red Devil Statue	45	0	0	45
In and Out	2,760	0	0	2,760
TOTALS	\$ 154,539	\$ 0	\$ 500	\$ 154,039

OWENSBORO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	MUNIS NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE				
Passed-through Kentucky Department of Agriculture:				
Food Distribution	10.555	575-04-02/ 575-05-02	N/A	\$ 91,021
School Breakfast Program.....	10.553	576-04-05/ 576-05-05	N/A	334,237
National School Lunch Program	10.555	575-04-02/ 575-05-02	N/A	996,393
Summer Food Service Program for Children ...	10.559	574-05-23	N/A	20,970
Child and Adult Care Food Program	10.558		N/A	19,439
Passed-through Daviess County Board of Education:				
Summer Food Service Program for Children.....	10.559	574-05-23	N/A	87,546
Passed-through Audubon Area Head Start:				
Child and Adult Care Food Program	10.558		N/A	22,844
TOTAL U.S. DEPARTMENT OF AGRICULTURE				1,572,450
U.S. DEPARTMENT OF DEFENSE				
Direct Program:				
ROTC – 2004	12.000		5044	4,062
ROTC – 2005	12.000		5045	53,261
TOTAL U.S. DEPARTMENT OF DEFENSE				57,323
U.S. DEPARTMENT OF LABOR				
Passed-through Green River Area Development District:				
Jobs for Kentucky Graduates – 2005.....	17.255	WIA-JG4-09	5884	9,059
Workforce Investment Act – 2005.....	17.255	WIA-JG5-09	5885	54,253
TOTAL U.S. DEPARTMENT OF LABOR				63,312
U.S. ENVIRONMENTAL PROTECTION AGENCY				
Direct Program:				
Asbestos Hazards Abatement	66.702	J-870412-010	N/A	11,838
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY				11,838
U.S. DEPARTMENT OF EDUCATION				
Direct Program:				
Impact Aid	84.041		5214	8,313
Smaller Learning Communities.....	84.215L		5184	6,978
Smaller Learning Communities.....	84.215L		5185	54,822

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH ENTITY IDENTIFYING NUMBER	MUNIS NUMBER	FEDERAL EXPENDITURES
Passed-through Kentucky Department of Education:				
Title I – Delinquent Child – 2004.....	84.010	351-04-09	3144	4,696
Title I – Delinquent Child – 2005.....	84.010	351-05-09	3145	28,924
Title I – 2004	84.010	351-04-01	3104	373,945
Title I – 2005	84.010	351-05-01	3105	1,273,247
Migrant Education – 2004.....	84.011	352-04-02	3114	29,979
Migrant Education – 2005.....	84.011	352-05-02	3115	47,280
Literacy and School Libraries	84.364A		3224	5,136
IDEA – Part B – 2004	84.027	581-04-02	3374	343,807
IDEA – Part B – 2005	84.027	581-05-02	3375	690,663
IDEA – Part B Discretionary – GRASCO – 2004.....	84.027	581-04-04	3364	112,461
IDEA – Part B Discretionary – GRASCO – 2005.....	84.027	581-05-04	3365	404,449
Special Ed Preschool – 2005.....	84.173	587-05-02	3435	42,347
Title I – Perkins – 2004.....	84.048	462-04-33	3484A	2,677
Title I – Perkins – 2005.....	84.048	462-05-33	3485A	58,520
Title IV – Drug Free Schools – 2004.....	84.186	590-05-02	4064	11,458
Title IV – Drug Free Schools – 2005.....	84.186	590-04-03	4065	39,677
Title II – Standards, Assessment, Accountability.....	84.281	530-03-03	4043C	90
Title IID – Federal Technology – 2003.....	84.318X	736-03-02	4253	22,665
Title IID – Federal Technology – 2004.....	84.318X	736-04-02	4254	25,173
Title IID – Federal Technology – 2005.....	84.318X	736-05-02	4255	16,310
Title V – Innovative Strategies – 2004	84.298A	533-04-02	3344	4,664
Title V – Innovative Strategies – 2005	84.298A	533-05-02	3345	16,832
Advance Placement Incentive	84.330		3953	2,254
Title II – Teacher Quality – 2003.....	84.367	710-03-02	4013	6,318
Title II – Teacher Quality – 2004.....	84.367	710-04-02	4014	141,788
Title II – Teacher Quality – 2005.....	84.367	710-05-02	4015	274,932
21 st Century Community Learning Center – 2003	84.287	744-03-03	4093	55,636
21 st Century Community Learning Center – 2004	84.287	744-04-03	5504	45,730
21 st Century Community Learning Center – 2005	84.287	744-05-03	5505	280,919
Passed-through Kentucky Department of Vocational Rehabilitation:				
Community Based Work Transition	84.126		3715	16,565
Passed-through Kentucky Workforce Development Cabinet:				
Vocational Education – Tech Prep.....	84.243		3635	15,000
Passed-through Murray State University:				
Gear Up Kentucky – 2004	84.334		3794G	1,938
Passed-through Daviess County Board of Education:				
IDEA – Part B – 2004	84.027		0114	19,669
IDEA – Part B – 2005	84.027		0115	109,453
TOTAL U.S. DEPARTMENT OF EDUCATION				4,595,315
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:				
Passed-through Audubon Area Community Center:				
Community Connections for Children	93.556		6565	5,000
Fatherhood Initiative – 2005.....	93.569		6795A	47,010
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				52,010
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 6,352,248

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of ***Owensboro Independent School District*** and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

**OWENSBORO INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2005**

● **04-1 Journal Entries**

**US Department of Agriculture
School Breakfast, Lunch and Summer and Food Distribution Programs
CFDA No. 10.550, 10.533, 10.555 and 10.559
Grant No. 575-03-02 / 575-04-02, 576-03-05 / 576-04-05 and 574-04-23
For the Year Ended June 30, 2004**

**US Department of Education
Title I — CFDA No. 84.010
Grant No. 351-04-09, 351-03-01 and 351-04-01
For the Year Ended June 30, 2004**

**US Department of Education
Title II — CFDA No. 84.367
Grant No. 710-03-02 and 710-04-02
For the Year Ended June 30, 2004**

**US Department of Education
Emergency School Renovation — CFDA No. 84.352
Grant No. 521-02-02
For the Year Ended June 30, 2004**

**US Department of Education
Emergency Counseling Program — CFDA No. 84.215
Grant No. S215E000418
For the Year Ended June 30, 2004**

Condition and Criteria: During our audit procedures, we noted that there were multiple instances of improper journal entries and coding errors.

Effect: These errors are significant enough to denote a significant deficiency in internal control structure. Also, due to the significant number of incorrect journal entries and reversals, it is difficult to understand the purpose of the entries. This has resulted in significant year-end adjustments. No questioned cost was noted from this internal control weakness.

Cause: The District's journal entry process does not have controls in place to detect errors. Inappropriate personnel are allowed to make journal entries. Most journal entries are not reviewed for propriety purposes.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)
For the Year Ended June 30, 2005

Auditor Recommendation: We recommend the District obtain training for the personnel involved in the journal entry process, especially for entries involving the Food Service Fund, and ensure that personnel adequately understand the proper internal control structure and use of journal entries. Additionally, we recommend appropriate personnel take an active role in reviewing journal entries and ensuring their propriety. Supporting documentation should be attached to each journal entry. The preparer and reviewer should initial the journal entry.

Grantee Response: Journal entries are now, as of January 2005, prepared by staff and me, the Director of Business Affairs, and then I enter into MUNIS if approved instead of relying on other inappropriate personnel. Previously, the majority of the entries I discussed and/or approved verbally or by email before they were keyed into MUNIS without follow-up that the entries were keyed, keyed without error or misrepresented. In the future, training will occur for staff to be able to enter management approved journal entries into MUNIS. The Director of Business Affairs will approve the entries before and follow-up after the entries are keyed. Appropriate backup documentation will accompany all journal entries. Internal control measures will be investigated and put into place where lacking.

Status: As of June 30, 2005, the finding was substantially corrected.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)
For the Year Ended June 30, 2005

● **04-2 Grant Compliance**

**US Department of Agriculture
School Breakfast, Lunch and Summer and Food Distribution Programs
CFDA No. 10.533, 10.555 and 10.559
Grant No. 575-03-02 / 575-04-02, 576-03-05 / 576-04-05 and 574-04-23
For the Year Ended June 30, 2004**

Condition and Criteria: The District did not maintain documentation of time and effort for certain personnel which had less than 100% of their time charged to the grant in accordance with OMB Circular A-87, Attachment B.

Effect: Time and effort records were not obtained in accordance with OMB Circular A-87, Attachment B. However, other supportive documentation was maintained to provide evidence cost was appropriately spent. No questioned cost resulted from this finding.

Cause: The District payroll personnel were unfamiliar with compliance requirements under OMB Circular A-87, Attachment B, requiring certain documentation of time and effort of personnel who are charged to multiple grant programs based on actual time spent.

Auditor Recommendation: Employees paid in part from a single federal program must maintain time and effort records that document the portion of time and effort spent to a specific single federal program.

Grantee Response: The District's finance officer has implemented a form in January 2006 that can be automatically generated from MUNIS for employees based on FTE (full-time equivalent) percentage paid out of federal projects. This form will be sent to the schools each month (less than 100% FTE and semi-annually for 100% FTE) for employees to sign validating their time and effort spent according to the federal project they are being paid from.

Status: As of June 30, 2005, the finding was uncorrected.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for School District Audits
Members of the Board of Education
Owensboro Independent School District
Owensboro, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of ***Owensboro Independent School District*** as of and for the year ended June 30, 2005, which collectively comprise ***Owensboro Independent School District's*** basic financial statements and have issued our report thereon dated November 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and Appendix III of the *Independent Auditors' Contract—Electronic Submission*.

● **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests

927 College Street ♦ PO Box 104
Bowling Green, KY 42102-0104
(270) 782-0700 ♦ Fax: (270) 782-0932
1-888-896-5000

167 South Main Street
Russellville, KY 42276
(270) 726-7151 ♦ Fax: (270) 726-3155
1-888-240-7151

disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated November 4, 2005.

The results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Appendix II of the *Independent Auditors' Contract—State Audit Requirements*.

● Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 05-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated November 4, 2005.

Kentucky State Committee for School District Audits
Members of the Board of Education
Owensboro Independent School District

This report is intended solely for the information and use of the Board members of the **Owensboro Independent School District**, Kentucky State Committee for School Districts, management of the **Owensboro Independent School District**, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Bowling Green, Kentucky
November 4, 2005



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Kentucky State Committee for School District Audits
Members of the Board of Education
Owensboro Independent School District
Owensboro, Kentucky

• **Compliance**

We have audited the compliance of ***Owensboro Independent School District*** (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and

927 College Street ♦ PO Box 104
Bowling Green, KY 42102-0104
(270) 782-0700 ♦ Fax: (270) 782-0932
1-888-896-5000

167 South Main Street
Russellville, KY 42276
(270) 726-7151 ♦ Fax: (270) 726-3155
1-888-240-7151

performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and that is described in the accompanying schedule of findings and questioned costs as item 05-2.

- **Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Kentucky State Committee for School District Audits
Members of the Board of Education
Owensboro Independent School District

This report is intended solely for the information and use of the Board members of the **Owensboro Independent School District**, Kentucky State Committee for School Districts, management of the **Owensboro Independent School District**, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Bowling Green, Kentucky
November 4, 2005

OWENSBORO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2005

SECTION I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that
are not considered to be material
weakness(es)? ☒ Yes ☐ None reported

Noncompliance material to financial
statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that
are not considered to be material
weakness(es)? ☐ Yes ☒ None reported

Type of auditors' report issued on compliance
for major programs: unqualified

Any audit findings disclosed that are required
to be reported in accordance with section
510(a) of Circular A-133? ☐ Yes ☒ No

OWENSBORO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2005

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553 / 10.555 / 10.559	Child Nutrition Cluster
84.287	21 st Century Community Learning Center

Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

SECTION II — FINANCIAL STATEMENT FINDINGS

● **05-1 Cash**

Condition and Criteria: As of June 30, 2005, the District's bank account had been reconciled; however, the general ledger cash account did not agree to the bank reconciliation amount.

Effect: This is significant enough to denote a significant deficiency in internal control structure. These errors resulted in significant year-end adjustments. No questioned cost was noted from this internal control weakness.

Cause: The District does not have policies or controls in place establishing guidelines to reconcile cash on the general ledger to the bank account amount.

Auditor Recommendation: We recommend that cash be reconciled monthly, agreeing the general ledger cash balance and the bank account cash balance, and reviewed by appropriate personnel. Any unreconciled differences should be researched and corrected.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2005

Grantee Response: The majority of the reconciling cash issues were due to excessive employee turnover. After a recent thorough cash analysis was prepared by the district treasurer, it was proven that the main issue resulted from summer payroll entries which became timing differences at year-end between the general ledger and the bank statement. Several entries, posted to June, actually were July summer (end-of-contract) 10-month employee payroll checks actually dated and paid in July. These payroll checks were incorrectly not listed as outstanding checks on the bank reconciliation on June 30th each year to match the corresponding payroll journal entries credited to the general ledger cash account as of June 30th. As of 2005, the treasurer reconciles in detail all general ledger transactions each month to the bank statement. Cash reconciliation duties will remain with the treasurer in the future instead of lower level staff.

● **05-2 Grant Compliance**

US Department of Agriculture
School Breakfast, Lunch and Summer and Food Distribution Programs
CFDA No. 10.533, 10.555 and 10.559
Grant No. 575-04-02 / 575-05-02, 576-04-05 / 576-05-05 and 574-05-23
For the Year Ended June 30, 2005

Condition and Criteria: The District did not maintain documentation of time and effort for certain personnel which had less than 100% of their time charged to the grant in accordance with OMB Circular A-87, Attachment B.

Effect: Time and effort records were not obtained in accordance with OMB Circular A-87, Attachment B. However, other supportive documentation was maintained to provide evidence cost was appropriately spent. No questioned cost resulted from this finding.

Cause: The District payroll personnel were unfamiliar with compliance requirements under OMB Circular A-87, Attachment B, requiring certain documentation of time and effort of personnel who are charged to multiple grant programs based on actual time spent.

Auditor Recommendation: Employees paid in part from a single federal program must maintain time and effort records that document the portion of time and effort spent to a specific single federal program.

OWENSBORO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2005

Grantee Response: The District's finance officer has implemented a form in January 2006 that can be automatically generated from MUNIS for employees based on FTE (full-time equivalent) percentage paid out of federal projects. This form will be sent to the schools each month (less than 100% FTE and semi-annually for 100% FTE) for employees to sign validating their time and effort spent according to the federal project they are being paid from.